

# Connecticut's Hedge Fund Industry

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## Issue

Provide a snapshot of Connecticut's hedge fund industry and summarize the changes in the regulatory landscape from 2010 to present.

## Summary

Connecticut has the second largest hedge fund industry in the United States based on the value of assets under management (AUM). According to the Department of Banking, the agency does not regulate hedge funds but regulates the fund investment advisers.

Title IV of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act made numerous changes to the registration, reporting, and recordkeeping requirements of the federal Investment Advisers Act. Among other things, it requires advisers to most private funds (hedge funds and private equity funds) to register with the Securities Exchange Commission (SEC). The amendments under the Dodd-Frank Act took effect on July 21, 2011. (Additional information can be found on the [SEC website](#).)

### ***Hedge Funds***

*"Hedge funds pool investors' money and invest the money in an effort to make a positive return. Hedge funds typically have more flexible investment strategies than mutual funds. Many hedge funds seek to profit in all kinds of markets by using leverage (in other words, borrowing to increase investment exposure as well as risk), short-selling, and other speculative investment practices that are not often used by mutual funds."*

-SEC, [Investor Bulletin - Hedge Funds](#)

In response to the SEC issuing its final hedge fund registration regulations, in July 2011 the Connecticut Department of Banking issued three orders relating to Connecticut's registration requirements for investment advisers. The orders (1) created a registration transition period for

previously exempt advisers, (2) provided new state registration exemptions, and (3) defined the term “client” for the purposes of Connecticut’s de minimus exemption.

The Connecticut legislature has not considered any legislation regarding hedge funds in recent sessions.

## Connecticut’s Hedge Fund Industry

Connecticut has the second largest hedge fund industry in the United States based on the value of AUM. There are 202 Connecticut-based hedge fund managers tracked on [Preqin's Hedge Fund Online](#) with a total of 616 Connecticut-based hedge funds. ([Preqin's Hedge Fund Online](#) is a hedge fund information source that is updated on a daily basis.)

The following table shows the 10 largest Connecticut-based hedge fund managers and the total AUM.

**Table 1: 10 Largest Connecticut-Based Hedge Fund Managers Based on 2015 Data**

| <i>Hedge Fund Manager</i>    | <i>AUM<br/>(\$ billion)</i> | <i>Data as of:</i> |
|------------------------------|-----------------------------|--------------------|
| Bridgewater Associates       | 151.7                       | December 31, 2015  |
| AQR Capital Management       | 74.0                        | September 30, 2015 |
| Viking Global Investors      | 33.1                        | December 31, 2015  |
| Tudor Investment Corporation | 13.4                        | September 30, 2015 |
| Lone Pine Capital            | 12.0                        | November 30, 2015  |
| Graham Capital Management    | 11.2                        | December 31, 2015  |
| Discovery Capital Management | 8.4                         | December 31, 2015  |
| Silver Point Capital         | 7.0                         | December 31, 2015  |
| Ellington Management Group   | 6.1                         | June 30, 2015      |
| Fermat Capital Management    | 4.8                         | December 31, 2015  |

Source: [Preqin Hedge Fund Online](#)

## Regulation of Investment Advisers in Connecticut

The Department of Banking does not regulate hedge funds but regulates the fund investment advisers (see Table 2). The department’s Securities and Business Investments Division is responsible for:

1. registering securities and business opportunity offerings sold in or from Connecticut;

2. registering broker-dealers, agents, investment advisers and investment adviser agents who transact business in Connecticut;
3. registering branch offices of broker-dealer and investment advisory firms;
4. conducting on-site examinations of broker-dealer, investment adviser and branch office registrants; and
5. enforcing Connecticut's securities laws.

**Table 2: Snapshot of Registration Activity as of the End of 2016**

| <b><i>At A Glance - December 31, 2016</i></b> |         |
|---|---------|
| Broker-dealers Registered                     | 2,139   |
| Broker-dealer Agents Registered               | 159,184 |
| Broker-dealer Branch Offices Registered       | 2,599   |
| Investment Advisers Registered                | 509     |
| SEC Registered Advisers Filing Notice         | 2,042   |
| Investment Adviser Agents Registered          | 12,937  |
| Exempt Reporting Advisers                     | 113     |
| Agents of Issuer Registered                   | 18      |

Source: [Connecticut Department of Banking](#)

OLR Report 2017-R-0033 describes the different standards of care between investment advisers and broker-dealers.

## **Connecticut Banking Department Orders**

In July 2011, in response to the SEC issuing final hedge fund registration regulations required by the Dodd-Frank Act, the Connecticut Department of Banking issued three orders relating to Connecticut's registration requirements for investment advisers.

### ***First Order – State Registration***

The [first order](#) established a state registration timeline for Connecticut advisers affected by the Dodd-Frank Act. Under this order the following timelines went into effect:

1. Investment advisers registered with the SEC with AUM less than \$90 million as of March 30, 2012 – must withdraw from registration with the SEC and register as an investment adviser in Connecticut by June 28, 2012.

2. Investment advisers who had relied on the repealed “private adviser” exemption (Rule 203(b)(3)) – must either register with Connecticut or the SEC and make a notice filing with Connecticut, by March 30, 2012.
3. Investment advisers who were not eligible for SEC registration or for either of the above deferrals and new advisers starting their advisory business after July 21, 2011 must continue to comply with applicable Connecticut registration and notice filing requirements.

### ***Second Order – Exemption from Connecticut Registration***

Effective July 21, 2011, the [second order](#) repealed a previous Connecticut registration exemption and adopted the SEC’s exemptions. Previously, Connecticut provided an exemption from investment adviser registration for hedge fund managers who were located in Connecticut and had more than \$25 million in AUM and managed less than 15 hedge funds.

Under the [second order](#), the following investment advisers are exempt from registration in Connecticut:

1. foreign private advisers,
2. investment advisers registered with the Commodity Futures Trading Commission,
3. investment advisers to small business investment companies,
4. investment advisers to venture capital funds, and
5. investment advisers solely to private funds with AUM less than \$150 million.

### ***Third Order – Definition of “Client” (De Minimis Exemption)***

The [third order](#) conformed Connecticut’s regulations to federal regulations, by adopting the SEC’s definition of “client” for Connecticut’s de minimis exemption. Under the de minimis exemption, an investment adviser is not required to register with the state if the investment adviser does not have a place of business in Connecticut and during the preceding 12-month period had less than 6 clients who are Connecticut residents.

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